Politics after Neoliberalism

REREGULATION IN MEXICO

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Rethinking the Consequences of Neoliberalism

The neoliberal wave has crested and broken. During the last two decades, virtually all developing countries shifted from state-led to market-oriented economic strategies. This global wave of policy reform, which affected the lives of literally billions of people across the developing world, stands as perhaps the most remarkable economic event of the late twentieth century.[1]

In the wake of this policy revolution, an ideologically charged debate has raged about the consequences of neoliberal reforms. Proponents of neoliberalism herald the triumph of free markets over government control. They euphorically predict new levels of prosperity as market forces are liberated from the fetters of government intervention.[2] By contrast, opponents of neoliberalism warn of developmental disaster. They argue that market-oriented reforms set countries on a pernicious "race to the bottom" as they compete to attract footloose global capital by lowering environmental and workplace standards.[3]

This study aims to get beyond the apocalyptic rhetoric by analyzing fresh evidence about the effects of neoliberal policy reform. The evidence challenges a fundamental assumption shared by both friend and foe of these reforms, who converge in the belief that they result in laissez-faire markets. I find instead that neoliberal policies, rather than unleashing market forces, trigger the construction of new institutions for market governance.

[1] For a vivid overview of this wave, see Yergin and Stanislaw (1998).
[2] See, for example, De Soto (1989); Friedman (1990); and Schwartz and Leyden (1997).
[3] See, for example, Clark (1991, esp. ch. 13); Walton and Seddon (1994); Collins and Lear (1995); Green (1995); and Wallach and Sforza (1999).

By vacating institutionalized policy domains, neoliberal reforms create opportunities for political incumbents to expand their authority and their support bases by "reregulating" sectors of the economy.[4] Organized societal groups have a stake in how markets are reregulated and can mobilize to support or challenge politicians' reregulation projects. Neoliberal reforms thus trigger two-step reregulation processes: First, political entrepreneurs launch projects to build support coalitions by reregulating markets; second, societal actors respond to these projects by mobilizing to influence the terms of reregulation. The varying strengths and strategies of politicians and societal groups, in turn, determine the various types of new institutions for market governance that will result from these reregulation processes. In short, rather than ending government intervention in markets and narrowing the range of the political, neoliberal reforms result in a new politics of reregulation.

Recognizing that neoliberal reforms create opportunities and incentives for institution building raises a further issue: What kinds of new institutions replace those destroyed or displaced by neoliberal policies? Because these institutions are likely to have a crucial impact on how countries perform in the global economy, it is imperative to understand their origins and dynamics.[5] To achieve this objective, I propose a framework for explaining the different types of new institutions for market governance that emerge after neoliberal reforms.

In sum, this book has three overarching goals. First, by showing that neoliberal policies can result in new institutions for market governance instead of unregulated markets, it challenges expectations rooted in neoliberal economic theory. Second, it provides a framework for explaining the different kinds of institutions that replace those destroyed by neoliberal reforms. Finally, by shifting the focus from the politics of neoliberal reform to the politics of reregulation, it moves beyond the well-studied questions

[4] The term "reregulation" has been employed since the early 1980s by students of regulatory reform in the United States and other advanced industrial countries. For an early use of the term, see Weingast (1981). See also Vogel (1996). The *locus classicus* of the idea that free-market reforms can result in new regulations is Polanyi (1944). Polanyi (1944:140) observed that "the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range." The present study confirms Polanyi's basic insight, yet offers a new, political explanation for reregulation.

[5] In an important shift away from its earlier focus on structural adjustment and neoliberal reform, the World Bank has increasingly recognized the importance of institutional reconstruction after neoliberalism. See Burki and Perry (1998).

of why countries choose neoliberal policies and how they implement them. In taking this step, the book develops a new agenda for comparative political economy: the study of politics *after* neoliberalism.

Beyond Neoliberalism: How Far Do Existing Studies Go?

The study of neoliberal reform has dominated work on the political economy of development during the last decade. Because most analyses treat market-oriented policies as a dependent variable, however, few explore the political effects of these policies. Many scholars seek to explain why countries choose neoliberal policies.[6] Within this focus on policy choice, some try to account for cross-national variation in the timing of reforms (Nelson 1990b). Others analyze differences in the composition of policy packages, attempting to explain, for example, why countries pursue orthodox or heterodox policies (Kahler 1990). Scholars have also focused on issues of policy implementation, identifying political and social conditions that help or hinder implementation of neoliberal reforms.[7] Such studies mainly try to explain what makes neoliberal reforms possible, rather than explain their political consequences.

Previous work offers important insights about the factors that induce politicians to support or oppose neoliberal policies and about how political institutions affect their implementation. These insights help explain why countries have had varied success at achieving macroeconomic stabilization and structural adjustment. Because they focus on the dismantling of ancien régimes based on state-led, inward-oriented development strategies, however, existing analyses shed little light on how institutions for market governance are reconstructed after transitions away from statism.

The few analyses of developing countries that look beyond the dismantling of old statist regimes have been curiously apolitical. Scholars have increasingly noted that states acquire new capabilities in the course of implementing neoliberal reforms. However, they have focused mainly on capabilities linked either to technical requirements of neoliberal policies, such as preparing state enterprises for sale and improving control of public expenditures, or to global market pressures, such as providing sophisticated information about export markets to domestic producers to

[6] See, for example, Nelson (1990a) and Bates and Krueger (1993).

[7] Callaghy (1990); Przeworski (1991); Haggard and Kaufman (1992); Haggard and Webb (1994); Naím (1995); and Grindle (1996).

help boost their competitiveness abroad.[8] These analyses underemphasize the possibility that neoliberal reforms can trigger *politically motivated* institution building, driven not by technical or market exigencies but by ambitious politicians looking to control policy areas vacated by state downsizing.

Perhaps because most advanced industrial countries embraced neoliberal reforms earlier than their counterparts in the developing world,[9] students of those countries have focused considerable attention on policy dynamics after the implementation of such reforms. Most notably, they have shown that the shift to market-oriented policies in countries such as Britain and the United States actually increased government regulation in high-technology sectors like telecommunications and financial services.[10] Although studies of reregulation in advanced industrial countries do go beyond the implementation of neoliberal reforms, they deemphasize the distributive effects of regulatory policy and instead portray reregulation as a relatively apolitical process led by technocrats who strive to promote economic performance, codify rules, or expand their bureaucratic prerogatives.[11] Consequently, these studies offer weak leverage for understanding how reregulation works in developing countries.

In developed and developing countries alike, the distributive effects of regulatory policy generate powerful incentives for political action.[12] In most developing countries, however, autonomous bureaucratic agencies insulated from "capture" by political actors are nonexistent or scarce.[13] Hence the impulse to reregulate often stems from politicians, not from technocrats. Understanding the dynamics of reregulation in such contexts requires a perspective that highlights politicians' efforts to gain and keep power.

In short, existing work in comparative political economy offers few insights about the politics of reregulation, leaving us, consequently, without a satisfactory framework for explaining the reconstruction of insti-

[8] Kahler (1990); Evans (1992); Waterbury (1992); Haggard and Kaufman (1995:310–14). Pastor and Wise (1999) include a focus on social policy and the state's potential role in promoting human capital.

[9] Chile is a notable exception. See Foxley (1983).

[10] On reregulation in advanced industrial countries, see Weingast (1981); Borrus et al. (1985); Moran (1991); and Vogel (1996).

[11] According to Vogel (1996:19), the "core agenda of regulatory reform" consists of efforts by bureaucrats to generate revenue and design new mechanisms for policy implementation.

[12] Bates (1983); Noll (1989).

[13] Migdal (1988). See also Schneider and Maxfield (1997).

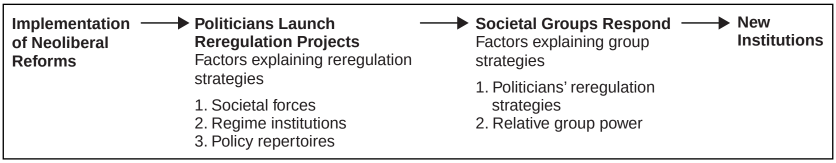

Figure 1.1. Framework for Analyzing the Politics of Reregulation.

tutions for market governance after neoliberalism. Building such a framework requires new conceptual and analytic tools.

The Politics of Reregulation: A Framework

This section develops a framework for analyzing the politics of reregulation. The framework combines a focus on politicians' choices of regulatory policies with a focus on subsequent bargaining between politicians and societal groups over the terms of reregulation. Together, these two perspectives help explain varied reregulation processes and the divergent institutions for market governance that result from them. Figure 1.1 summarizes the core components of the framework.

Reregulation Projects: A Politician-Centered Perspective

The distributive consequences of market regulation give politicians strong incentives to harness regulatory policy to political purposes. Regulation makes it possible to distribute "rationed favors, privileged access, and individual exceptions to general rules," thereby helping "generate the resources by which to govern" (Bates 1983:131). In contexts where bureaucratic agencies insulated from political control are scarce, we should expect regulatory policy to serve frequently as a tool that incumbent politicians deploy to build support and compete for power.

Neoliberal reforms give incumbents further reasons to regulate. First, such reforms often impose high costs on organized interest groups (e.g., industrial labor, government employees), thus creating difficult coalitional challenges for politicians.[14] Because regulatory policy generates divisible benefits and targetable rewards, reregulation can be a potent instrument for maintaining or restructuring support coalitions strained by neoliberal

[14] Collier (1992); Levitsky and Way (1998); and Burgess (1999).

reforms. Second, neoliberal shocks evacuate policy domains, and, from the perspective of ambitious politicians, these vacant domains may represent opportunities for increasing their authority. Reregulation can thus serve not only as a means to preserve power in situations of coalitional crisis caused by neoliberal reforms but also as a way to expand power.

Combined with the distributive consequences of regulatory policy, the characteristic political challenges and opportunities posed by neoliberal reforms give incumbents compelling incentives to reregulate. Thus there is a strong basis for expecting reregulation to serve as a coalition-building tool wielded by politicians in the paradigmatic "soft states" of developing countries that lack robust autonomous bureaucracies.[15]

The recognition that the impetus for reregulation stems from ambitious politicians, rather than from insulated technocrats, puts incumbents' strategic calculations at the center of the analysis. Yet politicians are not completely free in their choice of reregulation strategies. Their policy choices are constrained by societal forces and political institutions. Furthermore, politicians often have ideas and beliefs that prescribe a course of policy choice and implementation. To explain reregulation strategies, we need a framework that links societal and institutional constraints as well as politicians' ideas and values to the shaping of policy choice.[16]

Societal Forces. The configuration of societal interests in a policy area constrains politicians' reregulation strategies by delimiting the range of feasible policy options. Mapping the policy preferences of societal actors thus serves as an important first step for explaining reregulation strategies.

However, the distribution of societal preferences cannot by itself explain these strategies. As students of collective action have long observed, group preferences do not necessarily translate into group demands. Moreover, even if societal groups do organize to defend their interests, it is politicians, not interest groups, that are authorized to make regulatory policy. And, as we shall see, the responsiveness of politicians to interest-group demands depends on political institutions.

In sum, focusing on societal forces helps explain the menu of policy options. However, such a focus, while important, serves more to narrow the range of possible strategies than to explain actual strategies. To account

[15] The term "soft state" is from Myrdal (1968:66).

[16] Previous efforts to develop a multilevel, integrated analysis of policy choice include Gourevitch (1986) and Haggard (1990).

for politicians' reregulation strategies, we thus need to consider additional factors.

Regime Institutions. Regimes are the formal and informal rules of a political system that determine how authoritative decisions are made and who may participate in the decision making process (Collier 1979:402–3). Regime institutions have an important impact on reregulation because they define *who holds authority to make regulatory policy*. In federal regimes, for example, state and local governments may have authority over aspects of regulatory policy in their jurisdictions, which means that reregulation processes can unfold differently across subnational units and may involve intergovernmental competition to control policy areas abandoned by the federal government. In unitary regimes, by contrast, potentially autonomous policy jurisdictions usually do not exist at the subnational level, and reregulation is thus likely to be a territorially more uniform process than in federal systems. Nevertheless, a unitary system, too, can experience varied reregulation dynamics, with variation occurring across economic sectors, rather than administrative units, and involving interagency, rather than intergovernmental, bargaining.

Regime institutions also shape reregulation strategies by defining *the structure of the policymaking process*.[17] This structure helps determine the political tasks incumbents need to accomplish in order to achieve their policy objectives. In regimes with multiple veto points (e.g., systems in which executive power is checked by a legislature and judiciary), politicians may face complex challenges in securing consent from actors empowered to overturn or modify their policy initiatives. Regulatory policy in such contexts is likely to be a collective output that reflects the preferences of multiple actors from different government agencies and organizations. By contrast, in regimes with few veto points (e.g., systems in which policy can be made or changed by executive fiat), regulatory policy often reflects the preferences and political styles of a handful of leaders and their advisers.[18]

Finally, regime institutions influence regulatory policy by determining *the responsiveness of politicians to societal interests*. Regime institutions shape incumbents' career incentives by defining those to whom they are

[17] Immergut (1992); Tsebelis (1995).

[18] Such centralized regimes are exemplified by "delegative" and "majoritarian" democracies. See O'Donnell (1994) and Lijphart (1984).

accountable. In competitive multiparty democracies, for example, elected officials often face strong incentives to represent citizens in their districts because their career fortunes hinge on winning reelection (Mayhew 1974). In such contexts, incumbents are downwardly accountable and thus highly responsive to societal interests. In other types of regimes, by contrast, incumbents may be upwardly accountable to political elites and, hence, relatively unresponsive to societal groups. For example, in nondemocratic systems and in democracies with highly centralized parties or constitutional prohibitions against immediate reelection, performing constituency service can mean pleasing political elites, not societal interests.

Because they shape the responsiveness of politicians to societal pressures, regime institutions help explain how much their reregulation projects reflect the preferences of societal groups. If regime institutions give politicians compelling incentives to respond to societal demands, interest groups may exert decisive influence over reregulation strategies. By contrast, if regime institutions generate only weak incentives to serve societal interests, incumbents can have more freedom choosing reregulation strategies.

Policy Repertoires. Although I assume politicians are motivated mainly by the goals of gaining and retaining office, regulatory policies are not necessarily optimal career boosters. Politicians often have distinct *policy repertoires* that condition their policy decisions and may lead them to support regulatory policies that do not enhance their career fortunes. Policy repertoires are coherent frameworks of beliefs, values, and ideas that prescribe a course of policy choice and implementation. These repertoires include conceptions about the proper role for government and the appropriate means of government intervention. They can also include specific understandings and expectations about the political effects of different regulatory policies. Policy repertoires shape incumbents' perceptions of both the types of policy tools at their disposal and the methods available for manipulating these tools to create political dividends.[19]

Policy repertoires consist of more than just expert knowledge transmitted by policy analysts and professional economists. In addition to embodying such *pure* policy knowledge, politicians' repertoires are anchored in practical, *applied* knowledge, based on their accumulated expe-

[19] On ideas and policymaking, see Hall (1997).

rience in government and potentially distorted interpretations of expert prescriptions. Policy repertoires may be shaped in profound and enduring ways by a politician's formative career experiences. Consequently, rather than mirroring current expert consensus, policy repertoires may reflect outdated, past prescriptions.

Data about incumbents' career paths and memberships in political cohorts or generations should help explain the content of their policy repertoires. For example, incumbents with extensive experience administering statist policies may have distorted understandings of how neoliberal reforms should be implemented. These understandings can lead them to interpret core neoliberal imperatives, such as achieving macroeconomic stabilization and increasing exports in sectors with comparative advantages, not as mandates for shrinking the state's role, but rather as tasks that require expanding it.

By recognizing how beliefs, values, and ideas can shape policy choices, a politician-centered perspective need not reduce incumbents to faceless calculators of costs and benefits. Although it is a helpful and powerful simplification to assume that incumbents seek mainly to maximize their career fortunes, these efforts are framed by historically constructed, potentially idiosyncratic understandings about the range and consequences of policy options. A focus on policy repertoires thus illuminates *how* incumbents pursue political survival and helps explain why, for example, politicians seeking support from similar constituencies may have quite different policy agendas.

The influence of repertoires on policy choice should increase with the degree of autonomy incumbents have from societal forces. If politicians enjoy significant autonomy from societal pressures, their beliefs and ideological orientations can play a decisive role in their choice of reregulation strategies.

Institutional Outcomes: An Interactive Perspective

At the most general level, I argue that the politics of reregulation leads to two institutional outcomes: *oligarchic* policy frameworks that generate monopoly rents for a narrow group of elites, or, alternatively, *mass-based* policy frameworks that distribute benefits widely to nonelite groups. Oligarchic frameworks are as inefficient as they are exclusionary. If neoliberal reforms always resulted in oligarchic outcomes, it would be difficult not to condemn them as a disastrous hoax. By contrast, mass-based frameworks are inclusionary and can potentially promote cooperation between societal organizations and government that improves economic efficiency and performance. If neoliberal reforms always led to this kind of outcome, even their harshest critics might find merits in such policies. As we shall see, both oligarchic and mass-based outcomes are in fact possible, as are a number of intriguing intermediate outcomes between these two extremes.

To explain these contrasting outcomes, I focus initially on reregulation projects launched by incumbent politicians. Scholars have correctly emphasized the disorganizing effects of neoliberal policies and economic crisis on societal groups, especially organized labor.[20] Coupled with the powerful incentives neoliberal reforms give incumbents to deploy regulatory policy as a political weapon, these effects provide a strong basis for inferring that reregulation projects are launched by politicians, not by interest groups.[21] A focus on politicians should thus offer the best vantage point for explaining reregulation initiatives.

As noted, however, politicians are not completely free in their choice of reregulation projects: Political institutions and societal forces constrain their policy options. If the institutions of government give politicians only weak incentives to serve societal interests, they can have significant freedom when choosing reregulation strategies. By contrast, if these institutions generate compelling incentives to respond to societal demands, the configuration of societal interests has an important influence on politicians' strategies. When private elites dominate the political arena, incumbents face strong incentives to launch *crony capitalist* reregulation projects that create monopoly advantages for these elites. If implemented successfully, crony capitalist projects result in oligarchic outcomes.[22] Alternatively, when mass-based groups dominate, politicians have compelling incentives to pursue *neocorporatist* reregulation projects that

[20] See, for example, Zermeño (1990); Geddes (1995); and Hagopian (1998a).

[21] Of course, politicians often try to anticipate how societal actors will respond to their policy choices, especially if regime institutions give them incentives to attend to societal interests. Hence, even in the absence of organized societal pressures, political incumbents may try to incorporate societal preferences into their policy decisions.

[22] The term "crony capitalism" was commonly used to refer to the political economy of the Philippines under the patrimonial regime of Ferdinand Marcos. See, for example, Hutchcroft (1998). The literature on the important role of oligarchs in Latin American politics is also relevant here. See, for example, Collier (1976); Cardoso and Faletto (1979); Collier and Collier (1991); and Hagopian (1996).

deliver economic benefits to such groups.[23] If implemented successfully, neocorporatist projects lead to mass-based outcomes. In contexts where neither elite nor mass actors dominate, the configuration of societal forces cannot predict reregulation strategies. Rather, politicians' policy repertoires help explain whether they choose crony capitalist or neocorporatist strategies.

Although societal actors may not make the first move in reregulation processes, they can have a decisive impact on the institutional outcomes of such processes. Societal groups have stakes in how markets are reregulated, and politicians' reregulation projects can supply incentives and focal points that help them surmount barriers to collective action and mobilize to defend their interests. Hence, depending on the strengths and strategies of societal groups, the new institutions for market governance that result from politicians' reregulation strategies can deviate significantly from what these politicians had intended.[24]

For example, when politicians launch crony capitalist projects, a mass-based outcome is possible if strong grassroots movements mobilize and can find allies to help them offset the power of societal elites. By contrast, if grassroots organizations are weak, an oligarchic outcome is likely. In the face of neocorporatist projects, powerful societal elites may be able to block a mass-based outcome. Consequently, neocorporatist projects are most likely to succeed when societal elites are weak. Even if these elites are weak, however, conflict can nevertheless occur between politicians and mass-based organizations over the terms of reregulation. To reward their supporters and punish their opponents, politicians may try to restrict the distribution of benefits created by neocorporatist projects. These projects can thus spark intense struggles over access to benefits because excluded groups may mobilize to gain inclusion.

The strategies of groups excluded by neocorporatist projects have a decisive impact on the outcomes of reregulation. If such groups engage and seek to modify the neocorporatist project, they may be able to achieve robust institutions for market governance that help improve their welfare. By contrast, if excluded groups try to defeat the project, reregulation is

[23] The concept of neocorporatism has played an important role in work on European political economy. See, for example, Schmitter and Lehmbruch (1979); Goldthorpe (1984); and Katzenstein (1984, 1985).

[24] As we shall see in the case material analyzed in subsequent chapters, reregulation projects often had the unintended consequence of galvanizing societal opposition that forced politicians to modify their projects.

likely to result in political polarization and weak economic institutions that contribute little to welfare.

In sum, to explain the institutional outcomes of reregulation, we should analyze strategic interactions between politicians and societal groups as they negotiate the terms of reregulation.[25] This interactive perspective connects reregulation projects launched "from above" by political incumbents to responses to these projects "from below" by societal groups. As we shall see in subsequent chapters, making this connection is a crucial step toward explaining the new institutions for market governance that replace those destroyed by neoliberal reforms.

A Subnational Comparative Method

The following chapters apply the politics of reregulation framework to the case of Mexico, a country that between the late 1980s and 1995 was widely regarded as a textbook example of successful neoliberal reform.[26] The analysis focuses on the deregulation of coffee, Mexico's most important agricultural export. That deregulation, which involved the dismantling of a massive state-owned enterprise, was orchestrated by the same technocratic team responsible for earning the country's reputation as a neoliberal success story. The Mexican coffee sector thus represents an interesting case of government withdrawal from agricultural markets in the context of a neoliberal policy shock.

More important, the Mexican coffee sector provides an excellent opportunity for showing how the politics of reregulation framework presented above can explain the different kinds of new institutions that result from neoliberal reforms. Instead of unleashing free markets, neoliberal reforms in the coffee sector led to new institutions for market governance, as actors who previously had not intervened in the regulation of coffee moved to control policy areas abandoned by the old state-owned enterprise. Most notably, the governments of Mexico's coffee-producing states sought to

[25] In its dual focus on political actors and societal groups, this interactive perspective is similar to the "state in society" approach developed in Migdal, Kohli, and Shue (1994). For related approaches, see Collier and Collier (1991); Skocpol (1992); Fox (1993); and Evans (1995, 1996a, b).

[26] Upbeat assessments of Mexico's neoliberal reforms prior to the peso devaluation of December 1994 include Nelson (1990a) and esp. Córdoba (1994).

establish subnational regulatory frameworks and essentially reregulate what federal law had deregulated.[27] The new institutions that resulted from these state-level reregulation processes had dramatically different distributive and developmental consequences.

To explain these divergent outcomes, this book employs a subnational comparative method, which proves to be an especially powerful way to analyze the politics of reregulation. By focusing on the politics of reregulation across four of Mexico's most important coffee-producing states, I use *intranational* comparisons of hypothesized explanatory variables to highlight causal patterns and regularities.[28] Moreover, interviews with over two hundred state and federal government officials and local coffee producers anchored my understanding of the goals and strategies of the actors involved in reregulation processes. The interviews helped situate the actors in the context of the institutions and structures of strategic interaction that constrained them. By setting the motives and actions of specific individuals at the center of analysis, the interviews also helped me detect the causal mechanisms that generate the observed associations among the explanatory variables.[29]

[27] Mexico is a federal system with 31 states.

[28] Because they have potentially autonomous policy jurisdictions at the subnational level, federal political systems are especially appropriate settings for making comparisons across subnational units. Indeed, students of federal countries, such as Brazil, Germany, India, Russia, Spain, and the United States, have already put the subnational comparative method to good use. See, for example, Linz and de Miguel (1966); Kohli (1987); Anderson (1992); Skocpol (1992); Brace (1993); Hagopian (1996); Herrigel (1996); Stoner-Weiss (1997); Tendler (1997); and Varshney (in press). Although Mexico's federal structure also offers excellent opportunities for comparing state and municipal units, few have exploited these possibilities (Fox 1996; Rubin 1996, 1997; and Graham 1971 are exceptions). The paucity of comparative studies of subnational units probably reflects conventional scholarly wisdom about the highly centralized nature of the Mexican political system. See, for example, Reyna and Wienert (1977) and Centeno (1997). My research challenges this view by showing that political regimes with distinct dynamics exist at the subnational level. This finding suggests that the comparative analysis of state politics offers a powerful, if underutilized, methodological tool for understanding Mexico's ongoing political and economic transformation.

[29] On the fundamental role of mechanisms in social science explanation, see Hedström and Swedberg (1998) and Elster (1999, esp. ch. 1). According to Hedström and Swedberg (1998:7), "The search for mechanisms means that we are not satisfied with merely establishing systematic covariation between variables or events; a satisfactory explanation requires that we are also able to specify the social 'cogs and wheels' that have brought the relationship into existence." In the present study, the behavior and choices of politicians and producer organizations are these cogs and wheels.

Although the subnational comparative method combines controlled case comparisons with a close sensitivity to case material in much the same way as the well-known "small-N" comparative method,[30] the focus on subnational political units offers two critical advantages for studying the politics of reregulation. First, by making it easier to establish control over cultural, historical, ecological, and socioeconomic conditions, a focus on subnational units helps pinpoint how different kinds of institutions channel political ambition. Indeed, because the four Mexican states I have selected – Oaxaca, Guerrero, Chiapas, and Puebla – are all located in southern Mexico, have large indigenous populations, and are among the poorest in the country, I am able to establish control over nonpolitical variables to a far greater extent than is usually possible in conventional small-N analyses.[31] Thus my subnational focus is especially appropriate for the politician-centered perspective that this book adopts to explain reregulation projects.

Second, the subnational comparative method helps overcome a major limitation of existing work on the politics of neoliberal reform: extreme dependence on aggregate, national-level data. This striking "whole-nation bias" has obscured the possibility that neoliberal reforms, rather than unleashing market forces, can trigger reregulation processes at the subnational level.[32] Looking below the national level by disaggregating countries along territorial lines makes it easier to see that neoliberal reforms in fact result in different kinds of new institutions for market governance. This novel perspective, in turn, highlights why we need to move beyond previous work by shifting the focus from the politics of neoliberal reform to the politics of reregulation.

In addition to comparing subnational political units, this study reflects another key methodological decision: I have chosen to analyze a single economic sector. A multisectoral study that, in addition to coffee, also included petroleum, automobiles, and corn would provide a stronger basis for drawing conclusions about broad trends in Mexico's economy.

30 On the small-N comparative method, see Lijphart (1971) and Collier (1993).

31 The subnational comparative method does not necessarily improve control over such nonpolitical variables, however, as there may be as much, if not more, variation within countries as between them. For example, states in southern Mexico may have more in common with subnational units in neighboring Guatemala than with states in northern Mexico. Consequently, the use of the subnational method does not in itself guarantee greater control over potential explanatory variables.

32 On "whole-nation bias" see Rokkan (1970:ch. 2) and Lijphart (1975:166–9). See also Locke (1995) for an insightful critique of the "national models" perspective in comparative political economy.

Rethinking the Consequences of Neoliberalism

Although the transformation of the Mexican economy is a fascinating topic,[33] the aim of this book is not to explain that transformation, but rather to develop a set of general concepts, propositions, and arguments about the politics of reregulation. To achieve this goal, a *one sector, many places* research strategy that compares political rather than sectoral units proved essential. Implementing this research strategy required a territorially widespread industry. Because coffee production plays a major economic role across several southern Mexican states with contrasting interest groups, political institutions, and party systems, the coffee sector provided an ideal sectoral lens for studying the politics of reregulation.

In its reliance on a one-sector, many places research design, this book resembles important cross-national studies in political economy by scholars such as Robert Bates, Peter Evans, Terry Karl, and Jeffrey Paige.[34] These studies have shown that making comparisons across distinct territorial units in a single sector is an effective way to analyze how political variables shape outcomes such as economic performance and policy choice. Although the present analysis also compares cases that are matched in terms of the economic sector, it deals differently with the inescapable trade-off between (1) the ability to hold nonpolitical conditions constant and (2) the ability to generalize. On the one hand, as stated above, this book combines a focus on one sector with a focus on subnational territorial units in a single country, a research design that is better able to control for nonpolitical factors. On the other hand, because the cases are drawn from one country, this research design is less able to test the generalizability of my explanations. To mitigate this trade-off, the concluding chapter shows how my subnational cases bear crucial similarities to types of national cases and can thus be treated as proxies for national ones.[35] These similarities strengthen the overall generalizability of my argument about the politics of reregulation because they provide a basis for inferring that the causal patterns and mechanisms that I have found in subnational units also occur in national units.

[33] A number of studies have focused on the overall transformation of the contemporary Mexican economy. See, for example, Lustig (1992); Ros (1994); and Teichman (1995).

[34] Bates (1997); Evans (1995); Karl (1997); and Paige (1997).

[35] Przeworski and Teune's (1970) "substitution" rule illustrates one way to employ this technique. Another strategy for potentially increasing the generalizability of subnational studies involves comparing subnational units from *different* countries. On how game-theoretic tools can help strengthen the generalizability of single-country studies, see Bates et al. (1998:230–8).

In sum, this book employs an innovative method that combines a focus on a single economic sector with controlled comparisons across subnational political units. Because it highlights how neoliberal reforms, rather than unleashing market forces, result in different types of new institutions for market governance, this method provides a new way of looking at the consequences of neoliberalism. Thus the subnational comparative method serves as an essential tool for shifting the focus from the politics of neoliberal reform to the politics of reregulation.

Looking Ahead

The chapters that follow provide a subnational comparative analysis of the politics of reregulation in Mexico. The analysis starts by comparing four Mexican states. This cross-case perspective highlights the key variables that account for the contrasting institutional outcomes of reregulation. The book then turns to an in-depth study of the *process* of reregulation in each of the four states. By setting the motives, strategies, and choices of specific actors (that is, politicians and producers) at the center of analysis, this within-case perspective highlights the causal mechanisms that generate and explain the politics of reregulation. Finally, the focus shifts to a broadly comparative viewpoint by exploring how the framework and findings presented here can be extended to other cases.

Chapter 2 applies the politics of reregulation framework to the case of the Mexican coffee sector. The chapter shows how the dismantling of a massive, state-owned enterprise triggered projects by subnational politicians to reregulate coffee markets. The varying responses of grassroots organizations of small producers, in turn, determined the various types of new institutions for market governance that resulted from these reregulation projects. These contrasting outcomes had dramatically different consequences for the welfare of producers and their ability to compete in global markets. By utilizing controlled comparisons across four major coffee-producing states, Chapter 2 also underscores why the subnational comparative method is an especially strong tool for analyzing the politics of reregulation.

Chapters 3 to 6 analyze distinct reregulation scenarios by focusing on the politics of reregulation in four Mexican states. Chapter 3 analyzes the case of Oaxaca, where the state government launched an authoritarian, neocorporatist reregulation project. A powerful grassroots producers' movement mobilized against the project, pursuing a strategy that combined a focus on economic development goals with efforts to modify the project. Because this strategy emphasized nonpartisan economic objectives that did not pose a political threat to the state government, the government was eventually willing to accommodate the producers' organizations. The accommodation resulted in an inclusionary, mass-based outcome that enhanced welfare by making producers more competitive in export markets. Thus the case of Oaxaca raises the intriguing possibility that the task in contemporary Mexico, as well as in the many other developing countries with authoritarian corporatist heritages, may be to make corporatism work by making it inclusive and participatory, rather than to get rid of it. This case also shows how politicians in pursuit of power can unintentionally supply institutional raw materials that grassroots organizations may be able to transform into institutions for market governance that help them compete in global markets.

Chapter 4 analyzes the case of Guerrero, where producers' organizations joined a broader struggle for political democracy in Mexico, thereby choosing a partisan strategy aimed at defeating the state government's neocorporatist project. This strategy narrowed the possibilities for accommodation between the government and the producers' organizations, a process that resulted in exclusionary institutions for market governance that delivered virtually no benefits to the farmers. Thus the case of Guerrero highlights the difficulties of achieving inclusionary forms of corporatism in the context of an authoritarian political regime pursuing neoliberal economic reforms. In such a situation, one of the costs of choosing to be a democrat first and a producer second may be losing the opportunity to construct new economic institutions that could help improve welfare.

Chapters 5 and 6 show why neoliberal reforms in contexts with powerful private-sector elites, rather than resulting in unregulated markets, are likely to trigger crony capitalist reregulation projects intended to generate monopoly rents for oligarchs. Chapter 5 analyzes the case of Chiapas, where alliances between strong grassroots organizations and reformist, federal government officials offset the power of private elites, thereby making it possible to build inclusionary institutions for market governance even in a polarized context with powerful oligarchs. When neoliberal policies are implemented in places with strong oligarchs, such coalitions between grassroots movements and external allies are probably a necessary condition for a mass-based outcome.

The alternative scenario is seen in Chapter 6, an analysis of the case of Puebla, where reformist federal officials lacked organized pressure from below and thus failed in their efforts to prevent an oligarchic outcome. This failure shows the difficulties of building and sustaining reformist coalitions where grassroots movements are not strong. The case of Puebla thus serves as a sobering reminder that, rather than leading to the efficient allocation of resources by competitive markets, neoliberal reforms in contexts with powerful oligarchies and weak grassroots organizations are likely to result in new regulatory institutions that generate monopoly rents for private elites.

The final chapter synthesizes the argument and explores how the four reregulation scenarios seen in the Mexican case can help us understand the politics of reregulation in other countries. The chapter concludes with a broad research agenda for a comparative political economy of post-neoliberalism.